

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Metcalfe County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$9,429 from the prior year, resulting in excess fees of \$82,818 as of December 31, 2010. Revenues increased by \$64,320 from the prior year and expenditures increased by \$73,749.

Report Comments:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENT AND RECOMMENDATION	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Carol England Chaney, Metcalfe County Clerk
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Metcalfe County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2011 on our consideration of the Metcalfe County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Carol England Chaney, Metcalfe County Clerk
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Metcalfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 11, 2011

METCALFE COUNTY
CAROL ENGLAND CHANEY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

Library and Archives Grant	\$	8,088	
State Fees For Services			4,261
House Bill 537 - Revenue Supplement			61,845
Fiscal Court			40,455
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	317,354	
Usage Tax		416,019	
Tangible Personal Property Tax		547,689	
Other-			
Marriage Licenses		2,769	
Occupational Licenses		46	
Deed Transfer Tax		14,247	
Delinquent Tax		88,636	
		<hr/>	1,386,760
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		10,150	
Real Estate Mortgages		14,398	
Chattel Mortgages and Financing Statements		28,788	
All Other Recordings		18,871	
Charges for Other Services-			
Copywork		19,257	
		<hr/>	91,464
Other:			
Miscellaneous			1,651
Interest Earned			<hr/> 1,587
Total Revenues			1,596,111

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
 CAROL ENGLAND CHANEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 217,969

Usage Tax 403,452

Tangible Personal Property Tax 209,906

Licenses, Taxes, and Fees-

Delinquent Tax 8,784

Legal Process Tax 9,231

Affordable Housing Trust 8,724 \$ 858,066

Payments to Fiscal Court:

Tangible Personal Property Tax 33,736

Delinquent Tax 8,619

Deed Transfer Tax 13,535 55,890

Payments to Other Districts:

Tangible Personal Property Tax 282,311

Delinquent Tax 43,958 326,269

Payments to Sheriff

7,699

Payments to County Attorney

11,333

Operating Expenditures:

Personnel Services-

Deputies' Salaries 112,157

Employee Benefits-

Employer's Share Social Security 13,475

Employer's Paid Health Insurance 2,100

Contracted Services-

Advertising 150

Printing and Binding 8,804

Equipment Lease 4,000

Office Equipment 2,607

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
 CAROL ENGLAND CHANEY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Materials and Supplies-			
Office Supplies	\$	4,957	
Other Charges-			
Conventions and Travel		2,772	
Postage		3,014	
Maintenance and Repairs		11,844	
Office Equipment		1,910	
Miscellaneous		2,919	
		<u>2,919</u>	\$ 170,709
Total Expenditures			<u>\$ 1,429,966</u>
Net Revenues			166,145
Less: Statutory Maximum			<u>76,103</u>
Excess Fees			90,042
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,624	
		<u>3,624</u>	<u>7,224</u>
Excess Fees Due County for 2010			82,818
Payment to Fiscal Court - February 22, 2011			<u>82,772</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 46</u></u>

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Metcalfe County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Metcalfe County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 4. Grants

- A. The Metcalfe County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in June 2010 in the amount of \$8,088. The account earned \$4 in interest during the year. Funds totaling \$8,088 were expended during the year. The \$4 interest earned balance was transferred to the fee account leaving a grant balance of \$0 as of December 31, 2010.
- B. The Metcalfe County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in December 2010 in the amount of \$1,200. No funds were expended during the year leaving a grant balance of \$1,200 as of December 31, 2010.

Note 5. Lease

The Office of the County Clerk entered into a lease agreement on April 27, 2007 with Office Ware for a copier. The agreement requires 48 equal monthly installments of \$217. During calendar year 2010, payments of \$2,607 were made toward this lease. The ending balance as of the December 31, 2010 was \$868.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Carol England Chaney, Metcalfe County Clerk
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Metcalfe County Clerk for the year ended December 31, 2010, and have issued our report thereon dated May 11, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metcalfe County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2010-01 in the accompanying comment and recommendation to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Metcalfe County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Metcalfe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 11, 2011

COMMENT AND RECOMMENDATION

METCALFE COUNTY
CAROL ENGLAND CHANEY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

Segregation of duties over disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the disbursement functions of the County Clerk's office. Auditor noted the majority of all MVR disbursement checks are prepared by deputies, with the County Clerk reviewing and signing them. Checks for the monthly expenditures were prepared by the Clerk or a deputy. Dual signatures on checks are only required in the County Clerk's absence. The County Clerk writes and signs checks, posts all disbursements to the ledger as well as finalizes the quarterly report initiated by the bookkeeper. We recommend the County Clerk delegate all check writing duties to a deputy clerk and then she should examine and review the supporting documentation. We also recommend both the County Clerk and the deputy sign the check and initial the supporting documentation. In addition, we recommend the bookkeeper complete the quarterly and the County Clerk performs only a review. To further strengthen internal controls, the County Clerk could review and initial the monthly reports, disbursement ledger, and the balance in the checkbook.

County Clerk's Response: Due to small staffing and numerous duties, the clerk's office will always lack adequate segregation of duties, by state auditor standards. As Metcalfe Clerk, I feel I must review and approve all reports, receipts and expenditures in my office.

